

270 THE REGULATION OF THE
CURRENCY

Sir Edward's policy the influx and efflux of gold would have an effect on the note issue which would be three times the amount of the gold that came in or went out. This at least is the logical effect of his statement that "the notes should not exceed three times the gold or the cash balance." This law does not seem to be quite consistent with his view that the fixed ratio of gold to notes may be lowered by the payment of a tax; but presumably the tax would come into operation before the three to one part was reached, and at three to one there would be a firm line drawn. On this assumption the Committee's argument is a very strong one. "If," says its report (Cd. 9182, p. 8), "the actual note issue is really controlled by the proportion, the arrangement is liable to bring about very violent disturbances. Suppose, for example, that the proportion of gold to notes is actually fixed at one-third and is operative. Then, if the withdrawal of gold for export reduces the proportion below the prescribed limit, it is necessary to withdraw notes in the ratio of three to one. Any approach to the conditions under which the restriction would become actually operative would then be likely to cause even greater apprehension than the limitation of the Act of 1844." Certainly if, during a foreign drain, for every million of gold that went out, another two

millions of credit, over and above, had to
be cancelled, it is easy to imagine a very jumpy
state of mind in Lombard Street and on the Stock
Exchange.

Sir Edward and the Committee seem to
be agreed as to a limit on the note issue, but of
the two